

# **Strengthening Financial Management of Agricultural Business Organizations**

**G. F. HENNING**

**R. W. DICKEY**

**Ohio Agricultural Research and Development Center**

**WOOSTER, OHIO**

## CONTENTS

\* \* \* \* \*

Introduction.....	3
Procedure.....	3
Plan of Presentation.....	3
Section I. Capital Structures of Selected Agricultural Business Organizations.....	4
Introduction.....	4
Amounts and Forms of Capital Used by 47 Selected Agricultural Cooperative Business Organizations.....	5
Amounts and Forms of Capital Used by 40 Agricultural Business Organizations.....	5
Amounts and Forms of Capital Used by 27 Local Cooperative Grain Elevators and Farm Supply Associations.....	7
Amounts and Forms of Capital Used by 18 Local Cooperative Grain Elevators and Farm Supply Associations.....	7
Amounts and Forms of Capital Used by Three Statewide Cooperative Grain and Farm Supply Associations.....	7
Amounts and Forms of Capital Used by Selected Agricultural Credit Institutions.....	11
Amounts and Forms of Capital Used by 10 Selected Agricultural Business Organizations.....	11
Section II. Trends and Projected Average Amounts of Total Assets, Net Worth, and Fixed Assets of Selected Agricultural Business Organizations.....	14
Introduction.....	14
Trends and Projections of Total Assets, Net Worth, and Fixed Assets of 40 Selected Agricultural Cooperative Business Organizations.....	14
Trends and Projections of Total Assets, Net Worth, and Fixed Assets of 27 Local Cooperative Grain Elevators and Farm Supply Associations.....	15
Trends and Projections of Total Assets, Net Worth, and Fixed Assets of 18 Local Cooperative Grain Elevators and Farm Supply Associations.....	16
Trends and Projections of Total Assets, Net Worth, and Fixed Assets of Three Statewide Cooperative Grain and Farm Supply Associations.....	17
Trends and Projections of Total Assets, Net Worth, and Fixed Assets of 10 Selected Agricultural Cooperative Business Organizations.....	19
Summary.....	19
Section III. Recommendations.....	20
Appendix—Financial Terminology.....	23

# Strengthening Financial Management of Agricultural Business Organizations

G. F. HENNING and R. W. DICKEY

## INTRODUCTION

The historical evolution of agricultural cooperation in the United States involved increased farmer participation in marketing, purchasing, and service activities. As a result of this intense interest, facilities were secured, managers were employed, and cooperative associations were incorporated on a formal basis.

The members of most cooperatives were anxious to invest in their organization because of its contribution to their own well-being, both in an economic and social sense. But some farmers' cooperatives were not quite so successful. Many organizations were formed "overnight" to fulfill the immediate need of a few selected individuals. Members of such associations often failed to understand and appreciate the responsibilities as well as the privileges of membership.<sup>1</sup>

The most successful cooperatives were those

growing from "grassroots action," formed by a group of farmers who sought the best solution to their common problems in this method of doing business." These organizations were wisely planned during the formative years; had the aid of sound business, financial, and legal counsel; and grew slowly from firmly rooted beginnings. Their success was built on economic rather than emotional appeal.

In recent years, financing has become one of the major problems of farmer cooperatives. Patrons' demands for new and improved services are forcing cooperatives to seek sources of additional capital. Because of growing capital needs, better, stronger, and more flexible financing must be developed. In addition to reserve financial strength, the cooperative membership must be well informed. A membership which is aware of the financial needs of the business will respond more fully to the demands placed on it.

## PROCEDURE

This study<sup>2</sup> is an extension of previous research<sup>3</sup> undertaken to appraise financial management of Ohio farmer-owned cooperative agricultural business organizations and to make recommendations for greater financial strength and stability.

The financial audits of 47 selected Ohio agricultural cooperative organizations were examined and summarized for the fiscal years 1940-41, 1945-46, 1950-51, 1955-56, 1960-61, and 1964-65. The organizations were local grain elevators and farm supply associations, statewide cooperative grain and farm

supply associations, agricultural credit institutions, livestock artificial breeding associations, and dairy, poultry and egg, livestock, and wool marketing associations.

Through personal interviews with cooperative management, case studies were prepared for each of the 47 associations. This information permitted analysis of the financial structure and condition of each firm with a better knowledge and understanding of its historical development and present situation.

## PLAN OF PRESENTATION

The data collected from the 47 associations are presented in three sections.

Section I examines the amounts and forms of capital used by the 47 organizations for the fiscal years 1940-41, 1945-46, 1950-51, 1955-56, 1960-61, and 1964-65. The organizations were separated into classifications to facilitate the analysis of the changes in financing and to make recommendations for improvement of financial management.

Section II estimates the amount of total assets, net worth, and fixed assets which will be required for the fiscal years 1970, 1975, and 1980. The purpose of the projected estimates was to determine the

---

<sup>1</sup>Jewett, Alyce Lowrie and Edwin C. Voorhies. 1963. *Agricultural Cooperatives: Strength in Unity*, p. 40. Interstate Publishers, Danville, Illinois.

<sup>2</sup>Ibid.

<sup>3</sup>Dickey, R. W. 1966. *An Analysis of Financial Management of Agricultural Cooperative Business Organizations in Ohio and Recommendations for Improvement*. Dissertation submitted in partial fulfillment of the requirements for the Ph.D. degree, The Ohio State University.

<sup>4</sup>Henning, G. F. and R. E. Laubis. 1961. *Financial Structure of Agricultural Business Organizations*. Ohio Agri. Exp. Sta. Res. Bull. 880. Henning, G. F. and M. R. Burkes. 1963. *Changes in the Financial Structure of Agricultural Business Organizations*. Ohio Agri. Exp. Sta. Res. Bull. 952.

degree of growth and demand for capital for these selected future fiscal years.

Section III presents specific recommendations for the formulation of desirable forms of financing

which will provide flexibility and the capability to meet changing and specific future needs.

Definitions of the financial terms used in the study are presented in the Appendix.

## SECTION I. CAPITAL STRUCTURES OF SELECTED AGRICULTURAL BUSINESS ORGANIZATIONS

### Introduction

The capital structures of the business organizations in this study consisted of many different forms. The growth and changing composition of the types and amounts of capital of the different capital structures were analyzed. Methods used by farmer cooperatives in acquiring capital in different forms and amounts also were studied.

For analysis, the selected agricultural business organizations in the study were grouped into the following basic classifications: 47 selected agricultural cooperative business organizations, 40 agricultural cooperative business organizations, 27 local cooperative grain elevators and farm supply associations, 18 local cooperative grain elevators and farm supply associations, 3 statewide cooperative grain and farm supply associations, 4 Federal land bank associations, 3 production credit associations, and 10 selected agri-

cultural cooperative business organizations analyzed collectively and individually by business function.

Firms within each of the above classifications possessed different capital structures but experienced similar financing difficulties reflecting their respective business operations.

The total capital structures of the associations were comprised of capital forms encompassing different degrees of permanency. The capital forms were classified into permanent, semi-permanent, and non-permanent types. Permanency of capital was a relative concept, since association by-laws provided different redemption and transfer policies for the same form of capital.

For the purposes of this study, common stock, preferred stock, and surplus were considered permanent capital. These forms of capital could be made relatively permanent by provisions in the by-laws.

**TABLE 1.—Amounts and Forms of Capital Used by 47 Selected Ohio Agricultural Cooperative Business Organizations,\* Six Selected Fiscal Years.**

Form of Capital	1940-41	1945-46	1950-51	1955-56	1960-61	1964-65
<b>PERMANENT CAPITAL</b>						
Common Stock	\$2,092,582	\$ 2,388,779	\$ 2,832,057	\$ 4,538,354	\$ 7,259,937	\$ 8,553,491
Common A Stock	—	—	311,361	409,039	426,110	650,031
Common B Stock	—	—	3,812,040	3,434,009	2,371,110	1,909,241
Common C Stock	—	—	—	260,450	4,104,100	4,281,400
Subtotal	2,092,582	2,388,779	6,955,458	8,641,852	14,161,257	15,394,163
Preferred Stock	643,492	326,529	1,435,148	1,962,583	2,679,706	3,823,883
Preferred A Stock	—	1,659,745	5,155,062	6,881,370	6,881,055	6,146,021
Preferred B Stock	—	1,668,735	617,681	60,930	46,560	44,585
Subtotal	643,492	3,655,009	7,207,891	8,904,883	9,607,321	10,014,489
Surplus	1,067,921	1,144,028	1,665,022	3,453,068	4,200,721	4,590,900
Total	\$3,803,995	\$ 7,187,816	\$15,828,371	\$20,999,803	\$27,969,299	\$29,999,552
<b>SEMI-PERMANENT CAPITAL</b>						
Memberships	\$ 9,897	\$ 53,571	\$ 138,700	\$ 401,090	\$ 227,603	\$ 206,778
Book Allocations	354,921	1,145,309	4,744,057	6,365,694	7,894,847	10,143,367
Reserves	544,183	1,721,364	940,365	488,889	841,656	1,410,334
Certificates†	19,626	220,996	436,077	4,534,642	5,672,440	6,271,970
Total	\$ 928,627	\$ 3,141,240	\$ 6,259,199	\$11,790,315	\$14,636,546	\$18,032,449
<b>NON-PERMANENT CAPITAL</b>						
Certificates	\$ 43,988	\$ 146,445	— 351,176	\$ 667,450	\$ 833,008	\$ 1,156,589
Debenture Bonds	29,650	48,774	1,383,107	3,419,355	12,843,288	17,810,233
Total	\$ 73,638	\$ 195,219	\$ 1,734,283	\$ 4,086,805	\$13,676,296	\$18,966,822
Net Worth (Total Capital)	\$4,806,260	\$10,524,275	\$23,821,853	\$36,876,923	\$56,282,141	\$66,998,823

\*Selected cooperative organizations include grain elevators and farm supply associations, state grain and farm supply associations, production credit associations, land bank associations, livestock artificial breeding associations and dairy, poultry and egg, livestock, and wool marketing associations.

†Without maturity dates.

Source: Original data.

**TABLE 2.—Percentage Distribution of Capital, by Form of Capital, 47 Ohio Agricultural Cooperative Business Organizations, Six Selected Fiscal Years.**

Form of Capital	1940-41 Percent	1945-46 Percent	1950-51 Percent	1955-56 Percent	1960-61 Percent	1964-65 Percent
<b>PERMANENT CAPITAL</b>						
Common Stock	43.5	22.7	11.9	12.3	12.9	12.8
Common A Stock	—	—	1.3	1.1	.7	1.0
Common B Stock	—	—	16.0	9.3	4.2	2.8
Common C Stock	—	—	—	.7	7.3	6.4
Subtotal	43.5	22.7	29.2	23.4	25.1	23.0
Preferred Stock	13.4	3.1	6.0	5.4	4.8	5.7
Preferred A Stock	—	15.8	21.6	18.7	12.2	9.1
Preferred B Stock	—	15.8	2.6	.2	.1	.1
Subtotal	13.4	34.7	30.2	24.1	17.1	14.9
Surplus	22.2	10.9	7.0	9.4	7.5	6.9
Total	79.1	68.3	66.4	56.9	49.7	44.8
<b>SEMI-PERMANENT CAPITAL</b>						
Memberships	.2	.5	.6	1.1	.4	.3
Book Allocations	7.4	10.9	19.9	17.3	14.0	15.1
Reserves	11.3	16.4	4.0	1.3	1.5	2.1
Certificates*	.4	2.0	1.8	12.3	10.1	9.4
Total	19.3	29.8	26.3	32.0	26.0	26.9
<b>NON-PERMANENT CAPITAL</b>						
Certificates	.9	1.4	1.5	1.8	1.5	1.7
Debenture Bonds	.7	.5	5.8	9.3	22.8	26.6
Total	1.6	1.9	7.3	11.1	24.3	28.3
Net Worth (Total Capital)	100.0	100.0	100.0	100.0	100.0	100.0

\*Without maturity dates.  
Source: Original data.

Book allocations, allocated reserves, certificates without maturity dates, and membership capital were considered semi-permanent forms of capital. Semi-permanent forms of capital could be made relatively permanent by appropriate by-laws. A sizable percentage of allocated capital was in this form and thus was subject to a revolving capital program.

Non-permanent forms of capital were debenture bonds and certificates possessing a fixed rate of interest and definite maturity date. The non-permanent forms of capital were normally considered long-term liabilities by some associations. However, these forms of capital, possessing a maturity date, were issued to members and the investing public and competed directly with other securities issued by associations to obtain external capital.

#### **Amounts and Forms of Capital Used by 47 Selected Agricultural Cooperative Business Organizations**

The data for the 47 selected agricultural business organizations are summarized in Table 1. These associations did not begin using more than one class of common stock until the 1950 audit data appeared. However, the 47 associations began utilizing more than one classification of preferred stock as early as the 1945 audit data.

Table 2 presents the percentage distribution of each capital form for the six fiscal year periods. The

following changes in the components of the capital structure of the 47 associations can be noted: (1) the amount of common stock remained rather stable as a percent of total net worth since the 1945 fiscal year; (2) preferred stock decreased from nearly 35 percent in 1945 to only 15 percent of the total capital in 1964-65; (3) surplus fluctuated during each fiscal year but had a downward trend since 1940; (4) permanent capital had a downward trend since 1940 and comprised only 45 percent of total net worth in 1964-65; (5) total semi-permanent capital fluctuated during each fiscal year, with no definite trend noted in any capital form; (6) the most significant increase of any capital form occurred with debenture bonds, which received largest initial utilization in 1950; and (7) total non-permanent capital increased since 1940-41 and reached 28.3 percent in fiscal year 1964-65.

#### **Amounts and Forms of Capital Used by 40 Agricultural Business Organizations**

In this analysis, four Federal land bank associations and three production credit associations were omitted. The omission of the credit institutions enabled a clearer analysis of the capital forms and amounts being employed. The 40 selected associations possessed capital forms with less permanency.

**TABLE 3.—Amounts and Forms of Capital Used by 40 Ohio Agricultural Cooperative Business Organizations,\* Six Selected Fiscal Years.**

Form of Capital	1940-41	1945-46	1950-51	1955-56	1960-61	1964-65
<b>PERMANENT CAPITAL</b>						
Common Stock	\$ 900,342	\$1,320,529	\$ 1,682,327	\$ 2,961,064	\$ 3,959,612	\$ 4,013,181
Common A Stock	—	—	311,361	409,039	426,110	650,031
Common B Stock	—	—	3,812,040	3,434,009	2,371,110	1,909,241
Common C Stock	—	—	—	260,450	4,104,100	4,281,400
Subtotal	900,342	1,320,529	5,805,728	7,064,562	10,860,932	10,853,853
Preferred Stock	643,492	326,529	1,435,148	1,962,583	2,679,706	3,823,883
Preferred A Stock	—	1,659,745	5,155,062	6,881,370	6,881,055	6,146,021
Preferred B Stock	—	1,668,735	617,681	60,930	46,560	44,585
Subtotal	643,492	3,655,009	7,207,891	8,904,883	9,607,321	10,014,489
Surplus	1,093,281	1,117,324	1,435,852	2,438,328	2,676,093	2,385,353
<b>Total</b>	<b>\$2,637,115</b>	<b>\$6,092,862</b>	<b>\$14,449,471</b>	<b>\$18,407,773</b>	<b>\$23,144,346</b>	<b>\$23,253,695</b>
<b>SEMI-PERMANENT CAPITAL</b>						
Memberships	\$ 9,897	\$ 53,571	\$ 138,700	\$ 401,090	\$ 227,603	\$ 206,778
Book Allocations	354,921	1,145,309	4,744,057	6,365,694	7,894,847	10,143,367
Reserves	406,265	1,500,157	611,406	398,399	737,562	1,244,685
Certificates†	19,626	220,996	436,077	4,534,642	5,672,440	6,271,970
<b>Total</b>	<b>\$ 790,709</b>	<b>\$2,920,033</b>	<b>\$ 5,930,240</b>	<b>\$11,699,825</b>	<b>\$14,532,452</b>	<b>\$17,866,800</b>
<b>NON-PERMANENT CAPITAL</b>						
Certificates	\$ 43,988	\$ 146,445	\$ 351,176	\$ 667,450	\$ 833,008	\$ 1,156,589
Debenture Bonds	29,650	48,774	1,383,107	4,086,805	12,843,288	17,810,233
<b>Total</b>	<b>\$ 73,638</b>	<b>\$ 195,219</b>	<b>\$ 1,734,283</b>	<b>\$ 4,754,255</b>	<b>\$13,676,296</b>	<b>\$18,966,822</b>
<b>Net Worth (Total Capital)</b>	<b>\$3,501,463</b>	<b>\$9,208,114</b>	<b>\$22,113,994</b>	<b>\$34,861,853</b>	<b>\$51,353,094</b>	<b>\$60,087,317</b>

\*Four Federal land bank associations and three production credit associations were omitted.

†Without maturity dates.

Source: Original data

**TABLE 4.—Percentage Distribution of Capital, by Form of Capital, 40 Ohio Agricultural Cooperative Business Organizations,\* Six Selected Fiscal Years.**

Form of Capital	1940-41 Percent	1945-46 Percent	1950-51 Percent	1955-56 Percent	1960-61 Percent	1964-65 Percent
<b>PERMANENT CAPITAL</b>						
Common Stock	25.7	14.3	7.6	8.5	7.7	6.7
Common A Stock	—	—	1.4	1.2	.8	1.0
Common B Stock	—	—	17.2	9.9	4.6	3.2
Common C Stock	—	—	—	.7	8.0	7.1
Subtotal	25.7	14.3	26.2	20.3	21.1	18.0
Preferred Stock	18.4	3.5	6.5	5.6	5.2	6.4
Preferred A Stock	—	18.1	23.3	19.7	13.4	10.2
Preferred B Stock	—	18.1	2.8	.2	.1	.1
Subtotal	18.4	39.7	32.6	25.5	18.7	16.7
Surplus	31.2	12.2	6.5	7.0	5.2	4.0
<b>Total</b>	<b>75.3</b>	<b>66.2</b>	<b>65.3</b>	<b>52.8</b>	<b>45.0</b>	<b>38.7</b>
<b>SEMI-PERMANENT CAPITAL</b>						
Memberships	.3	.6	.6	1.2	.4	.3
Book Allocations	10.1	12.4	21.5	18.3	15.4	16.9
Reserves	11.6	16.3	2.7	1.1	1.4	2.1
Certificates†	.6	2.4	2.0	13.0	11.1	10.4
<b>Total</b>	<b>22.6</b>	<b>31.7</b>	<b>26.8</b>	<b>33.6</b>	<b>28.3</b>	<b>29.7</b>
<b>NON-PERMANENT CAPITAL</b>						
Certificates	1.3	1.6	1.6	1.9	1.6	1.9
Debenture Bonds	.8	.5	6.3	11.7	25.0	29.7
<b>Total</b>	<b>2.1</b>	<b>2.1</b>	<b>7.9</b>	<b>13.6</b>	<b>26.6</b>	<b>31.6</b>
<b>Net Worth (Total Capital)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\*Four Federal land bank associations and three production credit associations were omitted.

†Without maturity dates.

Source: Original data.

The amounts and forms of capital are presented in Table 3.

With the removal of the seven agricultural credit institutions, permanent capital in the form of common stock and surplus decreased. Preferred stock decreased several percentage points (Table 4).

Semi-permanent and non-permanent types of capital increased in 1964-65, accounting for 29.7 percent and 31.6 percent of total net worth, respectively. Debenture bonds were utilized to a greater extent in 1964-65 than any other capital form, comprising nearly 30 percent of the total capital of the 40 agricultural cooperative businesses.

Growth in external sources of capital was experienced, with other types of capital representing a smaller percentage of total capital employed. Permanent capital in the form of common stock, preferred stock, and surplus should be maintained at higher levels than existed in 1964-65. Surplus should not be relegated to a position of unimportance in the capital structure because adequate surplus funds are a prerequisite for stable business growth (see Section III. Recommendations).

#### **Amounts and Forms of Capital Used by 27 Local Cooperative Grain Elevators and Farm Supply Associations**

The elevator and supply firms, when analyzed separately, revealed a totally different capital structure than experienced with the entire 40 associations. Tables 5 and 6 present the various forms of capital and their percentage distribution.

The 27 firms experienced a decline in the utilization of permanent capital during the 25-year period studied. Only 72.6 percent of net worth was in permanent capital in fiscal year 1964-65, compared to 93.9 percent in fiscal year 1940-41.

Semi-permanent capital expanded from 4.1 percent of total net worth in 1940 to 21.3 percent in 1965. Book allocations accounted for the largest increase during the last 5-year period studied. A larger proportion of net savings had been allocated to member accounts, with a recent increase in the use of certificates without maturity dates.

The 27 elevator and farm supply associations had a rather strong composite capital structure but definite improvements should be undertaken. Semi-permanent and non-permanent capital were not excessive in 1964-65 and there were few indications of serious structural distortions. In the future, emphasis should be given to the building of surplus funds. The surplus account decreased from 36.0 percent to 13.9 percent during the 25-year period studied. This decline should be stopped and reversed if the future

is to bring growth and a strong financial position to meet business needs.

#### **Amounts and Forms of Capital Used by 18 Local Cooperative Grain Elevators and Farm Supply Associations**

The omission of 9 elevator and farm supply associations from the sample of 27 local elevators and farm supply associations resulted in a much stronger capital structure for the other 18 associations.

The growth of net worth for the 18 associations had been relatively stable, without any extreme fluctuations. Net worth expanded during each of the fiscal periods studied, with the largest increase occurring from 1950-1955 and then expanding at a slower rate (Table 7).

Permanent capital fluctuated within a range of 72.8 percent to 76.9 percent of net worth during the last 15 years studied (Table 8). Surplus accounted for 42.3 percent of net worth in 1940 but declined to 27.3 percent in 1950 and to 21.2 percent in 1965. This indicated a weakening trend in the permanent capital structure.

The 18 cooperative elevator and farm supply associations exemplified financial growth and stability. They managed to maintain membership equity at a satisfactory level and were successful in reducing the amount of outstanding debenture bonds.

These firms should continue to build and strengthen their capital structures in future years because of possible diminishing profit margins and adverse business conditions.

#### **Amounts and Forms of Capital Used by Three Statewide Cooperative Grain and Farm Supply Associations**

Three statewide cooperative grain and farm supply associations in Ohio were functioning as wholesale distributors of farm supplies and grain marketing agencies for local cooperative elevator and farm supply firms. The capital structure of these associations is presented in Table 9. The percentage distribution of capital forms is presented in Table 10.

The state associations possessed capital structures comprised basically of common and preferred stock, book allocations, certificates without maturity dates, and debenture bonds. Debenture bonds were the most important capital form. They comprised 41.3 percent of total net worth in fiscal year 1964-65. The state associations were able to expand debenture bond sales to outside investors but at the expense of maintaining adequate member equity.

An important principle of cooperative financing is to have sufficient permanent capital furnished by the membership. Permanent financing, either

**TABLE 5.—Amounts and Forms of Capital Used by 27 Ohio Local Cooperative Grain Elevators and Farm Supply Associations, Six Selected Fiscal Years.**

Form of Capital	1940-41	1945-46	1950-51	1955-56	1960-61	1964-65
<b>PERMANENT CAPITAL</b>						
Common Stock	\$ 793,975	\$1,238,791	\$1,594,803	\$2,662,216	\$3,011,956	\$ 2,666,586
Common A Stock	—	—	115,465	144,625	147,030	631,606
Common B Stock	—	—	626,890	629,809	527,060	527,291
Subtotal	793,975	1,238,791	2,337,158	3,436,650	3,686,046	3,825,483
Preferred Stock	66,689	220,204	1,052,873	1,092,845	1,318,301	1,512,778
Preferred A Stock	—	22,800	527,105	978,785	873,457	858,008
Preferred B Stock	—	—	58,410	51,370	43,870	43,570
Subtotal	66,689	243,004	1,638,388	2,123,000	2,235,628	2,414,356
Surplus	534,732	777,497	1,028,370	1,435,051	1,359,372	1,474,934
<b>Total</b>	<b>\$1,395,396</b>	<b>\$2,259,292</b>	<b>\$5,003,916</b>	<b>\$6,994,701</b>	<b>\$7,281,046</b>	<b>\$ 7,714,773</b>
<b>SEMI-PERMANENT CAPITAL</b>						
Book Allocations	\$ 6,736	\$ 83,111	\$ 427,062	\$ 776,234	\$ 745,119	\$ 1,301,597
Reserves	34,301	217,296	250,870	255,489	345,840	283,884
Certificates*	19,626	—	—	328,002	692,526	684,683
<b>Total</b>	<b>\$ 60,663</b>	<b>\$ 300,407</b>	<b>\$ 677,932</b>	<b>\$1,359,725</b>	<b>\$1,783,485</b>	<b>\$ 2,270,164</b>
<b>NON-PERMANENT CAPITAL</b>						
Certificates	\$ —	\$ —	\$ —	\$ 9,745	\$ 9,108	\$ 31,559
Debenture Bonds	29,650	48,774	321,607	573,900	922,193	618,920
<b>Total</b>	<b>\$ 29,650</b>	<b>\$ 48,774</b>	<b>\$ 321,607</b>	<b>\$ 583,645</b>	<b>\$ 931,301</b>	<b>\$ 650,479</b>
<b>Net Worth (Total Capital)</b>	<b>\$1,485,709</b>	<b>\$2,608,473</b>	<b>\$6,003,456</b>	<b>\$8,938,071</b>	<b>\$9,995,832</b>	<b>\$10,635,416</b>

\*Without maturity dates.  
Source: Original data.

**TABLE 6.—Percentage Distribution of Capital, by Form of Capital, 27 Ohio Local Cooperative Grain Elevators and Farm Supply Associations, Six Selected Fiscal Years.**

Form of Capital	1940-41 Percent	1945-46 Percent	1950-51 Percent	1955-56 Percent	1960-61 Percent	1964-65 Percent
<b>PERMANENT CAPITAL</b>						
Common Stock	53.4	47.5	26.6	29.8	30.1	25.1
Common A Stock	—	—	1.9	1.6	1.5	5.9
Common B Stock	—	—	10.4	7.0	5.3	5.0
Subtotal	53.4	47.5	38.9	38.4	36.9	36.0
Preferred Stock	4.5	8.4	17.5	12.2	13.2	14.2
Preferred A Stock	—	.9	8.8	11.0	8.7	8.1
Preferred B Stock	—	—	1.0	.6	.4	.4
Subtotal	4.5	9.3	27.3	23.8	22.3	22.7
Surplus	36.0	29.8	17.1	16.1	13.6	13.9
<b>Total</b>	<b>93.9</b>	<b>86.6</b>	<b>83.3</b>	<b>78.3</b>	<b>72.8</b>	<b>72.6</b>
<b>SEMI-PERMANENT CAPITAL</b>						
Book Allocations	.5	3.2	7.1	8.7	7.5	12.2
Reserves	2.3	8.3	4.2	2.8	3.5	2.7
Certificates*	1.3	—	—	3.7	6.9	6.4
<b>Total</b>	<b>4.1</b>	<b>11.5</b>	<b>11.3</b>	<b>15.2</b>	<b>17.9</b>	<b>21.3</b>
<b>NON-PERMANENT CAPITAL</b>						
Certificates	—	—	—	.1	.1	.3
Debenture Bonds	2.0	1.9	5.4	6.4	9.2	5.8
<b>Total</b>	<b>2.0</b>	<b>1.9</b>	<b>5.4</b>	<b>6.5</b>	<b>9.3</b>	<b>6.1</b>
<b>Net Worth (Total Capital)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\*Without maturity dates.  
Source: Original data.



**TABLE 7.—Amounts and Forms of Capital Used by 18 Ohio Local Cooperative Grain Elevators and Farm Supply Associations, Six Selected Fiscal Years.**

Form of Capital	1940-41	1945-46	1950-51	1955-56	1960-61	1964-65
<b>PERMANENT CAPITAL</b>						
Common Stock	\$ 679,745	\$ 911,532	\$1,452,607	\$2,581,776	\$2,963,229	\$2,648,455
Common A Stock	—	—	—	—	—	494,281
Common B Stock	—	—	—	2,994	6,445	47,047
Subtotal	679,745	911,532	1,452,607	2,584,770	2,969,674	3,189,783
Preferred Stock	—	7,250	41,250	191,350	434,750	675,925
Subtotal	—	7,250	41,250	191,350	434,750	675,925
Surplus	543,577	749,685	878,890	1,145,934	1,421,794	1,525,217
<b>Total</b>	<b>\$1,223,322</b>	<b>\$1,668,467</b>	<b>\$2,372,747</b>	<b>\$3,992,054</b>	<b>\$4,826,218</b>	<b>\$5,390,925</b>
<b>SEMI-PERMANENT CAPITAL</b>						
Book Allocations	\$ 6,736	\$ 83,111	\$ 427,062	\$ 776,234	\$ 730,759	\$1,265,401
Reserves	7,271	89,003	145,930	160,426	263,359	186,656
Certificates*	19,626	—	—	78,441	236,086	283,514
<b>Total</b>	<b>\$ 33,633</b>	<b>\$ 172,114</b>	<b>\$ 572,992</b>	<b>\$1,015,101</b>	<b>\$1,230,204</b>	<b>\$1,735,571</b>
<b>NON-PERMANENT CAPITAL</b>						
Certificates	\$ —	\$ —	\$ —	\$ 9,745	\$ 9,108	\$ 31,559
Debenture Bonds	29,650	48,774	273,907	448,345	219,481	68,022
<b>Total</b>	<b>\$ 29,650</b>	<b>\$ 48,774</b>	<b>\$ 273,907</b>	<b>\$ 448,345</b>	<b>\$ 219,481</b>	<b>\$ 68,022</b>
<b>Net Worth (Total Capital)</b>	<b>\$1,286,605</b>	<b>\$1,889,355</b>	<b>\$3,219,646</b>	<b>\$5,385,500</b>	<b>\$6,275,903</b>	<b>\$7,194,518</b>

\*Without maturity dates.  
Source: Original data.

**TABLE 8.—Percentage Distribution of Capital, by Form of Capital, 18 Ohio Local Cooperative Grain Elevators and Farm Supply Associations, Six Selected Fiscal Years.**

Form of Capital	1940-41 Percent	1945-46 Percent	1950-51 Percent	1955-56 Percent	1960-61 Percent	1964-65 Percent
<b>PERMANENT CAPITAL</b>						
Common Stock	52.8	48.2	45.1	47.9	47.2	36.8
Common A Stock	—	—	—	—	—	6.9
Common B Stock	—	—	—	.1	.1	.6
Subtotal	52.8	48.2	45.1	48.0	47.3	44.3
Preferred Stock	—	.4	1.3	3.6	6.9	9.4
Subtotal	—	.4	1.3	3.6	6.9	9.4
Surplus	42.3	39.7	27.3	21.2	22.7	21.2
<b>Total</b>	<b>95.1</b>	<b>88.3</b>	<b>73.7</b>	<b>72.8</b>	<b>76.9</b>	<b>74.9</b>
<b>SEMI-PERMANENT CAPITAL</b>						
Book Allocations	.5	4.4	13.3	14.4	11.6	17.6
Reserves	.6	4.7	4.5	3.0	4.2	2.6
Certificates*	1.5	—	—	1.5	3.8	3.9
<b>Total</b>	<b>2.6</b>	<b>9.1</b>	<b>17.8</b>	<b>18.9</b>	<b>19.6</b>	<b>24.1</b>
<b>NON-PERMANENT CAPITAL</b>						
Certificates	—	—	—	.2	.1	.5
Debenture Bonds	2.3	2.6	8.5	8.1	3.4	.5
<b>Total</b>	<b>2.3</b>	<b>2.6</b>	<b>8.5</b>	<b>8.3</b>	<b>3.5</b>	<b>1.0</b>
<b>Net Worth (Total Capital)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\*Without maturity dates.  
Source: Original data.

**TABLE 9.—Amounts and Forms of Capital Used by Three Ohio State Cooperative Grain and Farm Supply Associations, Six Selected Fiscal Years.**

Form of Capital	1940-41	1945-46	1950-51	1955-56	1960-61	1964-65
<b>PERMANENT CAPITAL</b>						
Common Stock	\$ 94,165	\$ 79,540	\$ 59,255	\$ 182,841	\$ 800,760	\$ 1,020,500
Common A Stock	—	—	18,600	18,575	18,525	18,425
Common B Stock	—	—	3,185,150	2,804,200	1,844,050	1,381,950
Common C Stock	—	—	—	260,450	4,104,100	4,281,400
Subtotal	94,165	79,540	3,263,005	3,266,066	6,767,435	6,702,275
Preferred Stock	467,543	89,700	334,000	369,100	611,300	1,028,600
Preferred A Stock	—	1,593,600	4,521,600	5,764,250	5,850,700	5,116,400
Preferred B Stock	—	1,656,600	548,336	—	—	—
Subtotal	467,543	3,339,900	5,403,936	6,133,350	6,462,000	6,145,000
Surplus	558,549	322,387	77,751	651,565	798,201	115,777
Total	\$1,120,258	\$3,741,827	\$ 8,744,692	\$10,050,981	\$14,027,636	\$12,963,052
<b>SEMI PERMANENT CAPITAL</b>						
Book Allocations	\$ —	\$ 461,958	\$ 3,436,148	\$ 4,175,568	\$ 4,531,817	\$ 4,494,522
Reserves	5,369	959,200	—	—	—	621,668
Certificates	—	—	—	2,741,680	4,062,547	4,799,559
Total	\$ 5,369	\$ 421,158	\$ 3,436,148	\$ 6,917,248	\$ 8,594,364	\$ 9,915,749
<b>NON PERMANENT CAPITAL</b>						
Debenture Bonds	—	—	—	—	—	—
(Total Non Permanent Capital)	—	—	\$ 1,049,700	\$ 3,213,755	\$10,555,680	\$16,087,192
Net Worth (Total Capital)	\$1 125,627	\$5,162,985	\$13,230,540	\$20 181,984	\$33,177,680	\$38,965,993

\*Without maturity dates  
Source Original data

**TABLE 10.—Percentage Distribution of Capital, by Form of Capital, Three Ohio State Cooperative Grain and Farm Supply Associations, Six Selected Fiscal Years.**

Form of Capital	1940-41 Percent	1945-46 Percent	1950-51 Percent	1955-56 Percent	1960-61 Percent	1964-65 Percent
<b>PERMANENT CAPITAL</b>						
Common Stock	8.4	1.5	.4	9	2.4	2.6
Common A Stock	—	—	1	1	1	.1
Common B Stock	—	—	24.2	13.9	5.5	3.5
Common C Stock	—	—	—	1.3	12.4	11.0
Subtotal	8.4	1.5	24.7	16.2	20.4	17.2
Preferred Stock	41.5	1.7	2.5	1.8	1.9	2.7
Preferred A Stock	—	30.9	34.2	28.6	17.6	13.1
Preferred B Stock	—	32.1	4.1	—	—	—
Subtotal	41.5	64.7	40.8	30.4	19.5	15.8
Surplus	49.6	6.3	6	3.2	2.4	.3
Total	99.5	72.5	66.1	49.8	42.3	33.3
<b>SEMI-PERMANENT CAPITAL</b>						
Book Allocations	—	8.9	26.0	20.7	13.7	11.5
Reserves	.5	18.6	—	—	—	1.6
Certificates*	—	—	—	13.6	12.2	12.3
Total	.5	27.5	26.0	34.3	25.9	25.4
<b>NON-PERMANENT CAPITAL</b>						
Debenture Bonds	—	—	—	—	—	—
(Total Non-Permanent Capital)	—	—	7.9	15.9	31.8	41.3
Net Worth (Total Capital)	100.0	100.0	100.0	100.0	100.0	100.0

\*Without maturity dates  
Source Original data

through retaining of earnings which belong to the members and issuing permanent capital stock or building surplus on which income tax is paid, is extremely important. It has stabilizing effects on the cooperative business organization.

#### **Amounts and Forms of Capital Used by Selected Agricultural Credit Institutions**

The agricultural credit institutions in the study were comprised of four Federal land bank associations and three production credit associations.

These credit associations were a distinctive group because their financial structures were not governed by the provisions of the Ohio Cooperative Law as other cooperatives in this study. They were governed under the provisions of the Federal Farm Credit Act of 1933 and subsequent legislation.

*Three Production Credit Associations:* The entire capital structure of the production credit associations was represented by permanent capital in 1964-65 (Table 11). Reserves decreased to 1.9 percent of net worth in 1955-56 after the outstanding class A government stock was retired (Table 12). Surplus was an important capital form, accounting for 43.2 percent to 40.6 percent of total net worth from 1955 to 1965. The growth in common B stock was indicative of the expansion in loan activity.

*Four Federal Land Bank Associations:* The total net worth of the four Federal land bank associations did not expand relative to the expansion experienced by the production credit associations (Table 13). The land banks had only one form of common stock and it fluctuated as a percentage of net worth from a high of 99.6 percent in 1940 to 76.6 percent in 1965 (Table 14). Reserves also fluctuated during the 25-year period as lending activity changed from one period to another.

#### **Amounts and Forms of Capital Used by 10 Selected Agricultural Business Organizations**

The 10 selected organizations consisted of livestock artificial breeding associations, dairy, poultry and egg, livestock, and wool marketing associations. Each firm was financed differently, with capital forms varying widely in the degree of permanency.

Net worth of these associations expanded significantly from 1940-41 to 1964-65, as shown in Table 15. Each component of permanent capital fluctuated during the period studied. The most significant increase of semi-permanent capital was in book allocations, which comprised 41.5 percent of net worth in 1964-65 (Table 16). The use of certificates of ownership without maturity dates declined from 25.5

percent in 1955 to 7.5 percent in 1964-65, with a larger utilization of book allocations. Book allocations provided the major source of capital. In most cases, these were revolved and then distributed to patrons when the association had adequate capital funds. Debenture bonds became a significant part of financing shortly after the 1955-56 fiscal year. The debenture bonds and certificates possessing definite maturity dates were sold to cooperative members, patrons, and other interested investors.

One livestock artificial breeding association was organized with capital stock, common stock. The other association was organized as a non-stock, membership organization. During the fiscal years following 1945, utilization of common stock, surplus funds, and debenture bonds increased.

One dairy marketing cooperative employed common and preferred stock and the other association employed only preferred stock. Permanent capital as a percentage of total net worth increased since 1945 for the two associations. Certificates of indebtedness which possessed maturity dates were an important capital source. Certificates of indebtedness of the preferred stock firm were distributed to patrons as patronage dividends and were revolved every 7 years. They could also be converted to preferred stock which earned annual dividends.

Two of the three poultry and egg marketing cooperatives included in the study were non-stock organizations and one was a stock cooperative with common and preferred stock. Certificates without maturity dates accounted for 61.1 percent of total net worth in fiscal year 1964-65. This percentage remained rather steady from fiscal years 1950-51 to 1964-65. The common and preferred stock association issued common stock instead of cash patronage. Building a strong capital structure is extremely important to these associations if they expect to continue providing the services and marketing functions demanded by a dynamic competitive economy.

The capital structure of the livestock marketing cooperative association was comprised largely of book allocations and debenture bonds. Book allocations amounted to 69.8 percent of net worth in 1964-65 and debenture bonds comprised 22.4 percent of net worth during the same fiscal period.

The entire capital structure of the wool marketing association consisted of semi-permanent and non-permanent capital. Allocated patrons' equity credits comprised 80 percent of the total net worth in 1964-65, with a major part of the remainder consisting of debenture bonds.

**11.—Amounts and Forms of Capital Used by Three Ohio Production Credit Associations, Six Selected Fiscal Years.**

Form of Capital	1940-41	1945-46	1950-51	1955-56	1960-61	1964-65
PERMANENT CAPITAL						
Common A Stock	\$434,805	\$494,805	\$ 348,385	\$ 187,530	\$ 451,385	\$ 521,410
Common B Stock	159,305	211,630	519,540	828,285	1,700,630	2,085,535
Subtotal	594,110	706,435	867,925	1,015,815	2,152,015	2,606,945
Surplus	—	—	133,003	798,938	1,239,144	1,780,055
Total	\$594,110	\$706,435	\$1,000,928	\$1,814,753	\$3,391,159	\$4,387,000
SEMI-PERMANENT CAPITAL						
Reserves						
(Total Semi-Permanent Capital)	\$110,056	\$164,040	\$ 328,248	\$ 35,037	—	—
Net Worth (Total Capital)	\$704,166	\$870,475	\$1,329,176	\$1,849,790	\$3,391,159	\$4,387,000

Source: Original data.

**TABLE 12.—Percentage Distribution of Capital, by Form of Capital, Three Ohio Production Credit Associations.**

Form of Capital	1940-41 Percent	1945-46 Percent	1950-51 Percent	1955-56 Percent	1960-61 Percent	1964-65 Percent
PERMANENT CAPITAL						
Common A Stock	61.8	56.8	26.2	10.1	13.3	11.9
Common B Stock	22.6	24.3	39.1	44.8	50.2	47.5
Subtotal	84.4	81.1	65.3	54.9	63.5	59.4
Surplus	—	—	10.0	43.2	36.5	40.6
Total	84.4	81.1	75.3	98.1	100.0	100.0
SEMI-PERMANENT CAPITAL						
Reserves						
(Total Semi-Permanent Capital)	15.6	18.9	24.7	1.9	—	—
Net Worth (Total Capital)	100.0	100.0	100.0	100.0	100.0	100.0

Source: Original data.

**TABLE 13.—Amounts and Forms of Capital Used by Four Ohio Federal Land Bank Associations, Six Selected Fiscal Years.**

Form of Capital	1940-41	1945-46	1950-51	1955-56	1960-61	1964-65
PERMANENT CAPITAL						
Common Stock	\$598,130	\$361,815	\$281,805	\$561,475	\$1,148,310	\$1,933,365
Surplus	(25,360)	26,704	96,167	215,802	285,484	425,492
Total	\$572,770	\$388,519	\$377,972	\$777,277	\$1,433,794	\$2,358,857
SEMI-PERMANENT CAPITAL						
Reserves						
(Total Semi-Permanent Capital)	\$ 27,862	\$ 57,167	\$ 711	\$ 55,453	\$ 104,094	\$ 165,649
Net Worth (Total Capital)	\$600,632	\$445,686	\$378,683	\$832,730	\$1,537,888	\$2,524,506

Source: Original data.

**TABLE 14.—Percentage Distribution of Capital, by Form of Capital, Four Ohio Federal Land Bank Associations.**

Form of Capital	1940-41 Percent	1945-46 Percent	1950-51 Percent	1955-56 Percent	1960-61 Percent	1964-65 Percent
PERMANENT CAPITAL						
Common Stock	99.6	81.2	74.4	67.4	74.7	76.6
Surplus	(4.2)	6.0	25.4	25.9	18.5	16.8
Total	95.4	87.2	99.8	93.3	93.2	93.4
SEMI-PERMANENT CAPITAL						
Reserves						
(Total Semi-Permanent Capital)	4.6	12.8	.2	6.7	6.8	6.6
Net Worth (Total Capital)	100.0	100.0	100.0	100.0	100.0	100.0

Source: Original data.

**TABLE 15.—Amounts and Forms of Capital Used by 10 Selected Ohio Agricultural Cooperative Business Organizations\* Transacting Business Directly with Farmers, Six Selected Fiscal Years.**

Form of Capital	1940-41	1945-46	1950-51	1955-56	1960-61	1964-65
<b>PERMANENT CAPITAL</b>						
Common Stock	\$ 12,202	\$ 2,198	\$ 28,269	\$ 116,007	\$ 146,896	\$ 326,095
Common A Stock	—	—	177,296	245,839	260,555	—
Subtotal	12,202	2,198	205,565	361,846	407,451	326,095
Preferred Stock	109,260	16,625	48,275	500,638	750,105	1,282,505
Preferred A Stock	—	43,345	106,357	138,335	156,898	171,613
Preferred B Stock	—	12,135	10,935	9,560	2,690	1,015
Subtotal	109,260	72,105	165,567	648,533	909,693	1,455,133
Surplus	—	17,440	329,731	351,712	518,520	794,642
Total	\$121,462	\$ 91,743	\$ 700,863	\$1,362,091	\$1,835,664	\$ 2,575,870
<b>SEMI-PERMANENT CAPITAL</b>						
Memberships	\$ 9,897	\$ 53,571	\$ 138,700	\$ 401,090	\$ 227,603	\$ 206,778
Book Allocations	348,185	600,240	880,847	1,413,892	2,617,911	4,347,248
Reserves	366,595	323,661	360,536	142,910	391,722	339,133
Certificates†	—	220,996	436,077	1,464,960	917,367	787,728
Total	\$724,677	\$1,198,468	\$1,816,160	\$3,422,852	\$4,154,603	\$ 5,680,887
<b>NON-PERMANENT CAPITAL</b>						
Certificates	\$ 43,988	\$ 146,445	\$ 351,176	\$ 657,705	\$ 823,900	\$ 1,125,030
Debenture Bonds	—	—	11,800	299,150	1,365,415	1,104,121
Total	\$ 43,988	\$ 146,445	\$ 362,976	\$ 956,855	\$2,189,315	\$ 2,229,151
Net Worth (Total Capital)	\$890,127	\$1,436,656	\$2,879,999	\$5,741,798	\$8,179,582	\$10,485,908

\*The selected cooperative organizations include livestock artificial breeding associations and dairy, poultry and egg, livestock, and wool marketing associations.

†Without maturity dates.

Source: Original data

**TABLE 16.—Percentage Distribution of Capital, by Form of Capital, Ten Selected Ohio Agricultural Cooperative Business Organizations\* Transacting Business Directly with Farmers, Six Selected Fiscal Years.**

Form of Capital	1940-41 Percent	1945-46 Percent	1950-51 Percent	1955-56 Percent	1960-61 Percent	1964-65 Percent
<b>PERMANENT CAPITAL</b>						
Common Stock	1.4	.2	1.0	2.0	1.8	3.1
Common A Stock	—	—	6.2	4.3	3.2	—
Subtotal	1.4	.2	7.2	6.3	5.0	3.1
Preferred Stock	12.3	1.2	1.7	8.7	9.1	12.2
Preferred A Stock	—	3.0	3.7	2.4	1.9	1.6
Preferred B Stock	—	.8	.3	.2	.1	.1
Subtotal	12.3	5.0	5.7	11.3	11.1	13.9
Surplus	—	1.2	11.4	6.1	6.3	7.6
Total	13.7	6.4	24.3	23.7	22.4	24.6
<b>SEMI-PERMANENT CAPITAL</b>						
Memberships	1.1	3.7	4.8	7.0	2.8	2.0
Book Allocations	39.1	41.8	30.7	24.6	32.0	41.5
Reserves	41.2	22.5	12.5	2.5	4.8	3.2
Certificates†	—	15.4	15.1	25.5	11.2	7.5
Total	81.4	83.4	63.1	59.6	50.8	54.2
<b>NON-PERMANENT CAPITAL</b>						
Certificates	4.9	10.2	12.2	11.5	10.1	10.7
Debenture Bonds	—	—	.4	5.2	16.7	10.5
Total	4.9	10.2	12.6	16.7	26.8	21.2
Net Worth (Total Capital)	100.0	100.0	100.0	100.0	100.0	100.0

\*The selected cooperative organizations include livestock artificial breeding associations and dairy, poultry and egg, livestock, and wool marketing associations.

†Without maturity dates.

Source: Original data.

## SECTION II. TRENDS AND PROJECTED AVERAGE AMOUNTS OF TOTAL ASSETS, NET WORTH, AND FIXED ASSETS OF SELECTED AGRICULTURAL BUSINESS ORGANIZATIONS

### Introduction

This section presents the estimated amounts of total assets, net worth, and fixed assets which will be required to satisfy assumed growth in the agricultural business firms studied.

Assuming no major depression during the next 15 years and that inflationary pressures will continue at approximately the same rate as for the past 25 years, the estimated amounts of total assets, net worth, and fixed assets are presented for fiscal years 1970-71, 1975-76, and 1980-81.

To eliminate the effects of the 1940-41 and 1945-46 fiscal periods, linear projections were computed with data for 1950-51, 1955-56, 1960-61, and 1964-65 fiscal periods. These projections are presented together with the projections employing the 1940-41 and 1945-46 fiscal years' data. By comparing the two linear trend lines, better predictions of future capital growth can be formulated.

It is anticipated that the projected lines should level off by 1970 and remain relatively constant for the next decade, assuming inflation will not be greater than in the last 10 years. Therefore, the projected average figures should be somewhat smaller than indicated by the straight line in 1980. However, the important consideration of such analyses is the relationship of the trend lines to each other for the same type of firms as well as for firms with different types of business operations.

This analysis will not yield concrete answers which can be used by the management of an individual cooperative association. Management recommendations from this study must be general in nature and will not necessarily apply to a particular associa-

tion. Moving forward over the next 15 to 20 years, cooperative organizations should plan now to get themselves soundly financed in order to meet financial and business problems in 1985. The analysis contributes to a better understanding of what can be expected in the future in respect to estimated growth of total assets, net worth, and fixed assets for the cooperative marketing, supply, and service industries in Ohio.

### Trends and Projections of Total Assets, Net Worth, and Fixed Assets of 40 Selected Agricultural Cooperative Business Organizations

Forty associations were included in this portion of the analysis. The average amounts of total assets, net worth, and fixed assets are presented in Table 17 and in Figure 1. Total assets of this group of business organizations are expected to increase over the 1964-65 fiscal year by the following percentages: 26 percent by 1970-71 and 47 percent by 1975-76.

Net worth is expected to increase in amount but at a lesser rate than total assets. Total assets will have approximately a 5 percent greater increase in amount than net worth by 1970-71.

The estimated percentage increase of fixed assets for 1970-71 will be approximately 29 percent greater than the amount in 1964-65 and 50 percent greater by 1975-76. Thus, fixed assets will be assumed to constitute a greater proportion of the total assets in the future and will require the type of capital which will remain with the association for a considerable period of time.

With the removal of the effects of 1940-41 and 1945-46 fiscal years from the linear projection analy-

**TABLE 17.—Average Amounts of Total Assets, Net Worth, and Fixed Assets, 40 Selected Ohio Agricultural Cooperative Business Organizations Transacting Business Directly with Farmers, 1940, 1945, 1950, 1955, 1960, 1965, and Projected Amounts for 1970, 1975, and 1980.**

Year	TOTAL ASSETS		NET WORTH		FIXED ASSETS	
	Average Amount	Projected Amount	Average Amount	Projected Amount	Average Amount	Projected Amount
1940	\$ 138,153	\$ —	\$ 87,537	\$ —	\$ 31,715	\$ —
1945	395,669	—	230,203	—	114,030	—
1950	1,022,524	—	581,721	—	235,521	—
1955	1,344,054	—	871,213	—	363,897	—
1960	2,004,838	—	1,294,380	—	612,505	—
1965	2,123,099	—	1,503,960	—	602,518	—
1970	—	2,678,770	—	1,817,914	—	774,481
1975	—	3,109,450	—	2,119,746	—	902,419
1980	—	3,540,130	—	2,421,578	—	1,030,357

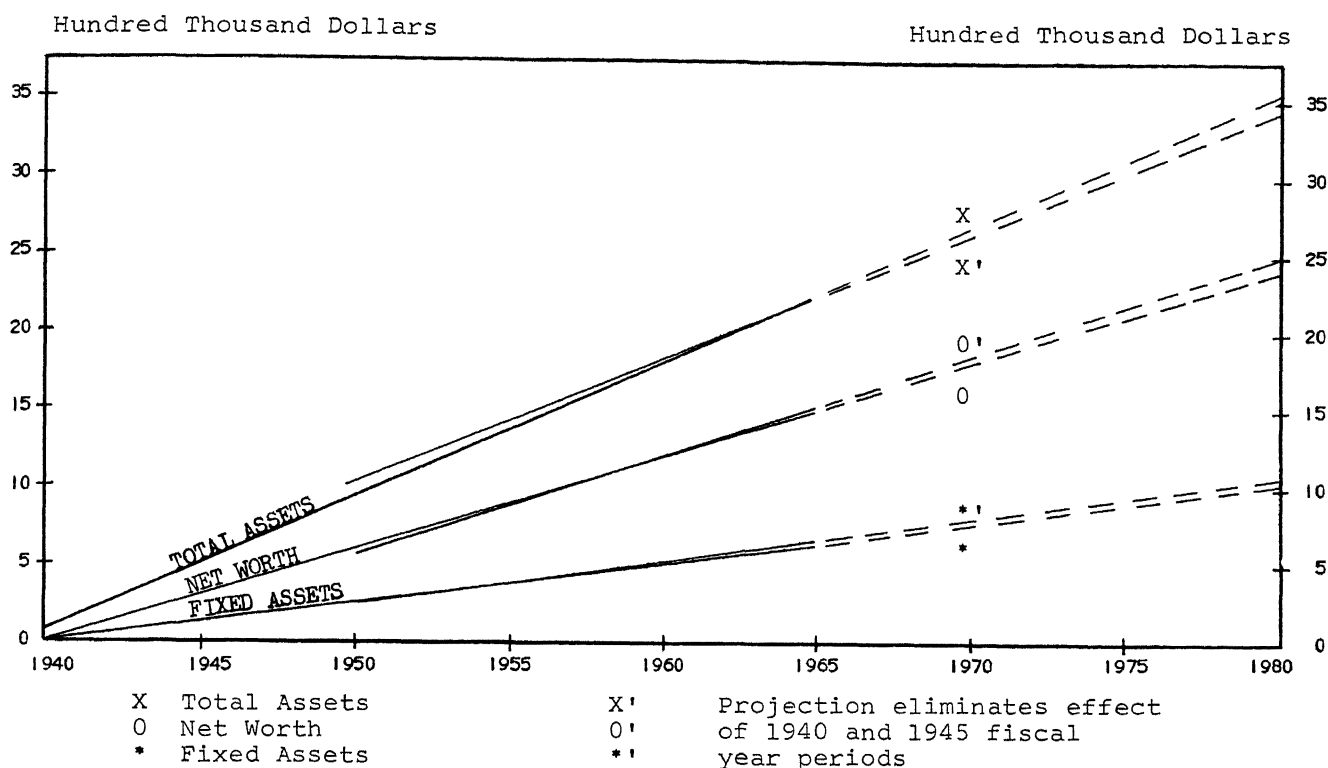


Fig. 1.—Average amounts of total assets, net worth, and fixed assets of 40 selected agricultural cooperative business organizations transacting business directly with farmers, Ohio, 1940, 1945, 1950, 1955, 1960, 1965, and projected amounts for 1970, 1975, and 1980.

sis of net worth as a percentage of total assets, increased borrowing from financial institutions or private individuals must be secured to maintain an effective and expanding business operation.

#### Trends and Projections of Total Assets, Net Worth, and Fixed Assets of 27 Local Cooperative Grain Elevators and Farm Supply Associations

Net worth as a percentage of total assets of the 27 associations decreased. This decline is expected to continue to 1980. The average amounts of total

assets, net worth, and fixed assets of the 27 associations are presented in Table 18 and Figure 2. If the assumed conditions are correct, total assets can be expected to increase 26 percent by 1970-71 and 45 percent by 1975-76 over the fiscal year 1964-65. This compares to an increase in net worth of 29 percent and 48 percent. Fixed assets can be expected to increase 28 percent and 48 percent, respectively, during the same periods.

Therefore, only with this group of cooperatives are the projected percentage increases from the 1964-

TABLE 18.—Average Amounts of Total Assets, Net Worth, and Fixed Assets, 27 Ohio Local Cooperative Grain Elevators and Farm Supply Associations, 1940, 1945, 1950, 1955, 1960, 1965, and Projected Amounts for 1970, 1975, and 1980.

Year	TOTAL ASSETS		NET WORTH		FIXED ASSETS	
	Average Amount	Projected Amount	Average Amount	Projected Amount	Average Amount	Projected Amount
1940	\$ 69,284	\$ —	\$ 55,026	\$ —	\$ 23,677	\$ —
1945	129,367	—	96,610	—	39,910	—
1950	333,216	—	222,350	—	127,958	—
1955	460,601	—	331,040	—	172,700	—
1960	576,248	—	370,216	—	219,250	—
1965	630,560	—	393,904	—	233,879	—
1970	—	793,987	—	507,246	—	299,609
1975	—	916,113	—	582,214	—	346,289
1980	—	1,038,239	—	657,182	—	392,969

Hundred Thousand Dollars

Hundred Thousand Dollars

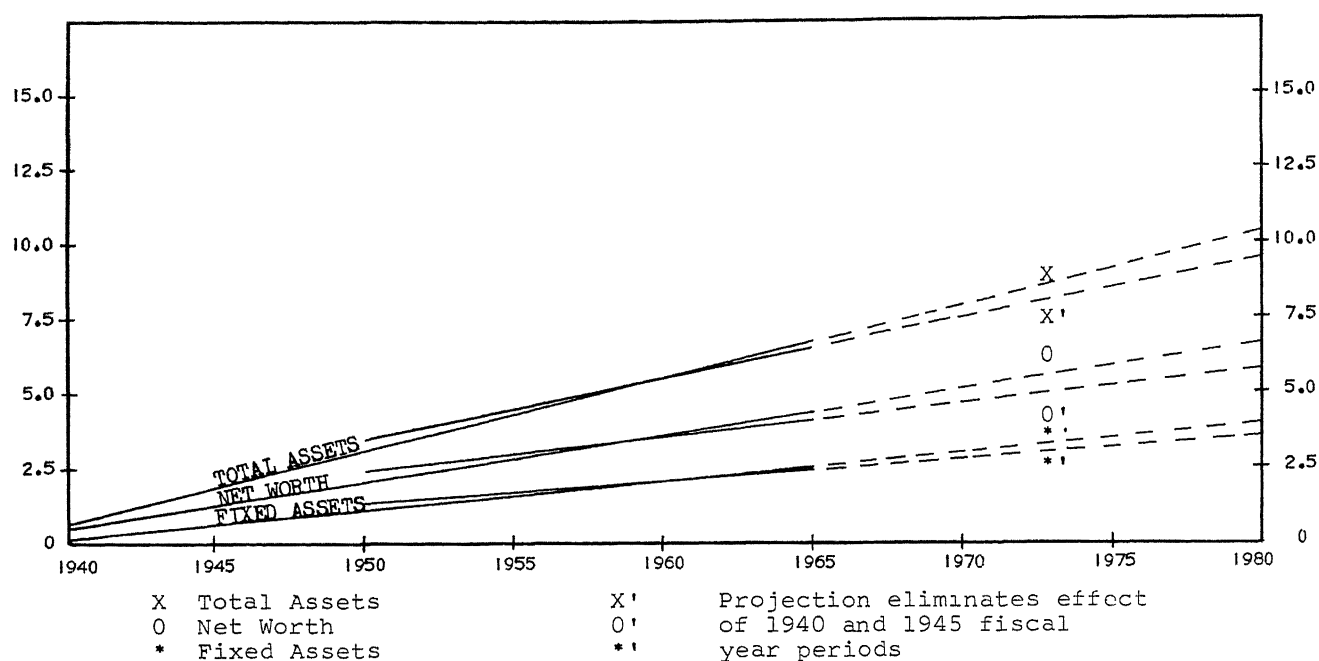


Fig. 2.—Average amounts of total assets, net worth, and fixed assets of 27 local cooperative grain elevators and farm supply associations, Ohio, 1940, 1945, 1950, 1955, 1960, 1965, and projected amounts for 1970, 1975, and 1980.

65 fiscal period to the estimated periods approximately the same for total assets, net worth, and fixed assets.

#### Trends and Projections of Total Assets, Net Worth, and Fixed Assets of 18 Local Cooperative Grain Elevators and Farm Supply Associations

The group of 18 local elevator and supply associations were analyzed separately from 9 financially weaker associations. The data for these 18 associations are found in Table 19 and Figure 3.

Total assets are expected to increase less than net worth from 1964-65 to the projected fiscal years.

For this group of business organizations as a whole, the total assets are expected to increase over the 1964-65 fiscal year by the following percentages: 18 percent by 1970 and 36 percent by 1975. During the same periods, net worth is expected to increase 21 percent and 39 percent and fixed assets are expected to increase 19 percent and 38 percent, respectively. Therefore, net worth will have approximately a 3 percent greater increase in amount than total assets by 1970-71.

When total assets are projected without the influence of fiscal years 1940-41 and 1945-46, the estimated amount of total assets will be 14 percent great-

TABLE 19.—Average Amounts of Total Assets, Net Worth, and Fixed Assets, 18 Ohio Local Cooperative Grain Elevators and Farm Supply Associations, 1940, 1945, 1950, 1955, 1960, 1965, and Projected Amounts for 1970, 1975, and 1980.

Year	TOTAL ASSETS		NET WORTH		FIXED ASSETS	
	Average Amount	Projected Amount	Average Amount	Projected Amount	Average Amount	Projected Amount
1940	\$ 85,202	\$ —	\$ 71,478	\$ —	\$ 27,854	\$ —
1945	138,383	—	104,964	—	40,292	—
1950	276,166	—	178,869	—	97,133	—
1955	383,949	—	299,194	—	144,804	—
1960	486,591	—	348,661	—	201,803	—
1965	582,608	—	399,695	—	236,529	—
1970	—	689,427	—	483,059	—	282,292
1975	—	793,411	—	554,273	—	327,308
1980	—	897,395	—	625,487	—	372,324



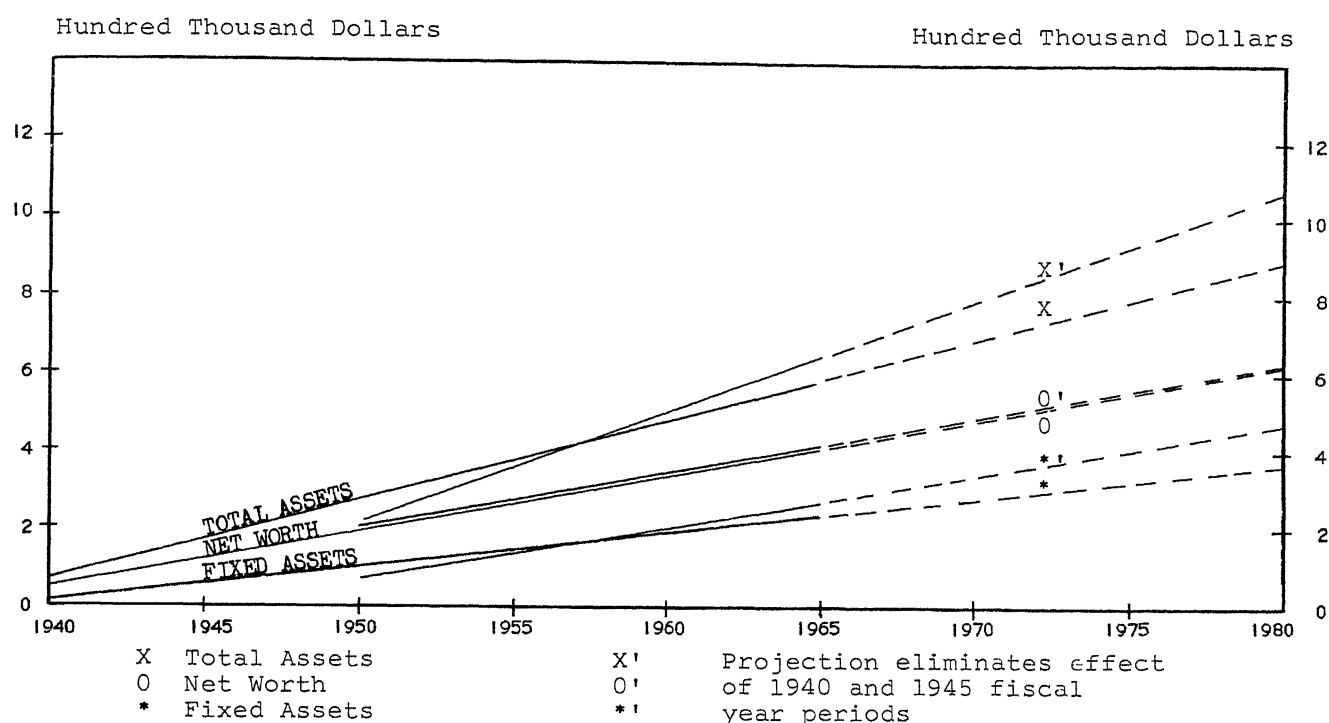


Fig. 3.—Average amounts of total assets, net worth, and fixed assets of 18 local cooperative grain elevators and farm supply associations, Ohio, 1940, 1945, 1950, 1955, 1960, 1965, and projected amounts for 1970, 1975, and 1980.

er than net worth by 1970-71. If total assets are expected to increase proportionately more than net worth in the future, cooperative financing will likely be comprised of a greater proportion of borrowed funds than utilized in the past.

#### Trends and Projections of Total Assets, Net Worth, and Fixed Assets of Three Statewide Cooperative Grain and Farm Supply Associations

The average amounts of total assets, net worth, and fixed assets of the three associations are presented in Table 20 and Figure 4. The same relative increases were present in the data of the three statewide associations as for the other firms in the study. Total

assets of the three associations are expected to increase in dollar amount over the 1964-65 fiscal year by the following percentages: 30 percent by 1970-71 and 51 percent by 1975-76. During the same period, net worth will increase 20 percent and 40 percent and fixed assets will increase 32 percent and 54 percent over the 1964-65 data.

Comparing the total assets to net worth, it appears that the total assets will have approximately a 10 percent greater increase in amount than net worth by 1970-71. Therefore, net worth will not be nearly adequate to finance future cooperative business operations. Unless net worth can be increased relative

TABLE 20.—Average Amounts of Total Assets, Net Worth, and Fixed Assets, Three Ohio State Cooperative Grain and Farm Supply Associations, 1940, 1945, 1950, 1955, 1960, 1965, and Projected Amounts for 1970, 1975, and 1980.

Year	TOTAL ASSETS		NET WORTH		FIXED ASSETS	
	Average Amount	Projected Amount	Average Amount	Projected Amount	Average Amount	Projected Amount
1940	\$ 822,263	\$ —	\$ 375,209	\$ —	\$ 117,530	\$ —
1945	3,387,834	—	1,720,995	—	945,355	—
1950	7,657,873	—	4,410,180	—	1,258,853	—
1955	10,115,790	—	6,727,328	—	2,164,838	—
1960	16,337,206	—	11,059,227	—	4,451,597	—
1965	15,966,207	—	12,988,664	—	3,938,353	—
1970	—	20,750,434	—	15,553,511	—	5,198,890
1975	—	24,094,026	—	18,222,057	—	6,071,142
1980	—	27,437,618	—	20,890,603	—	6,943,394

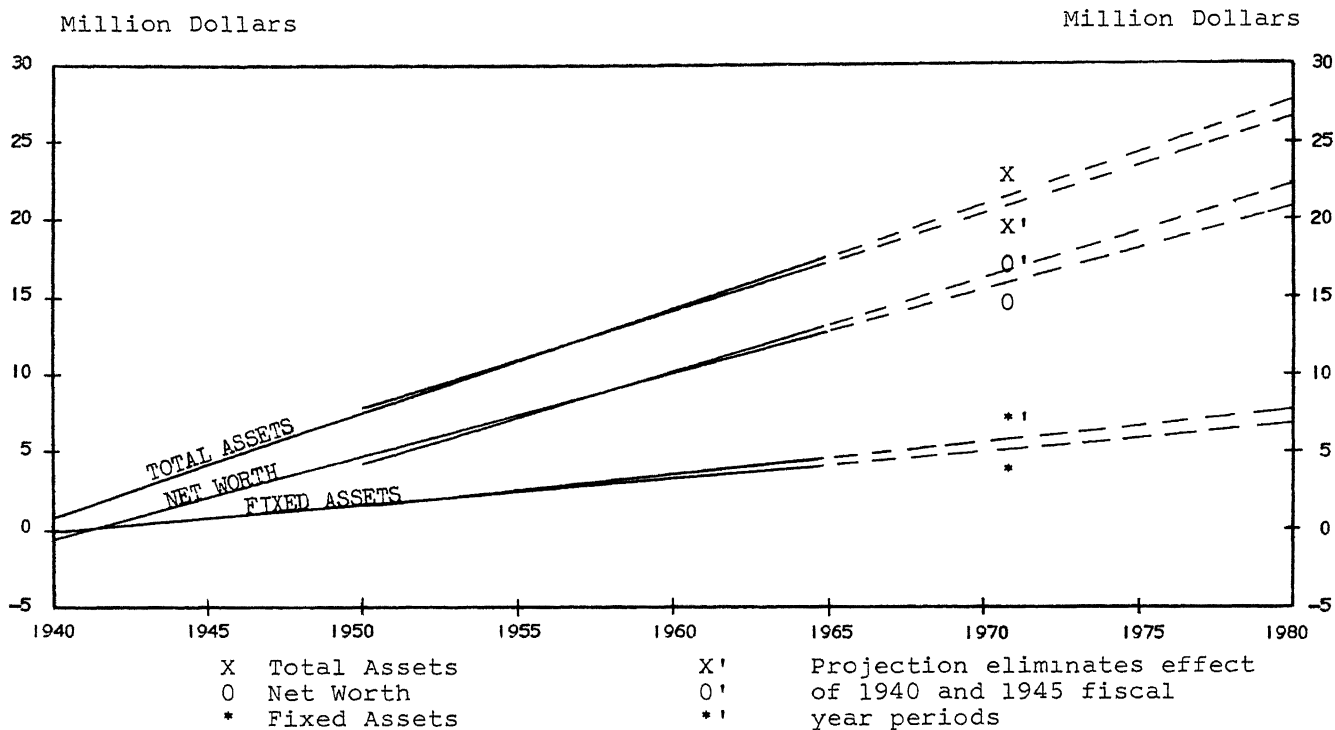


Fig. 4.—Average amounts of total assets, net worth, and fixed assets of three statewide cooperative grain and farm supply associations, Ohio, 1940, 1945, 1950, 1955, 1960, 1965, and projected amounts for 1970, 1975, and 1980.

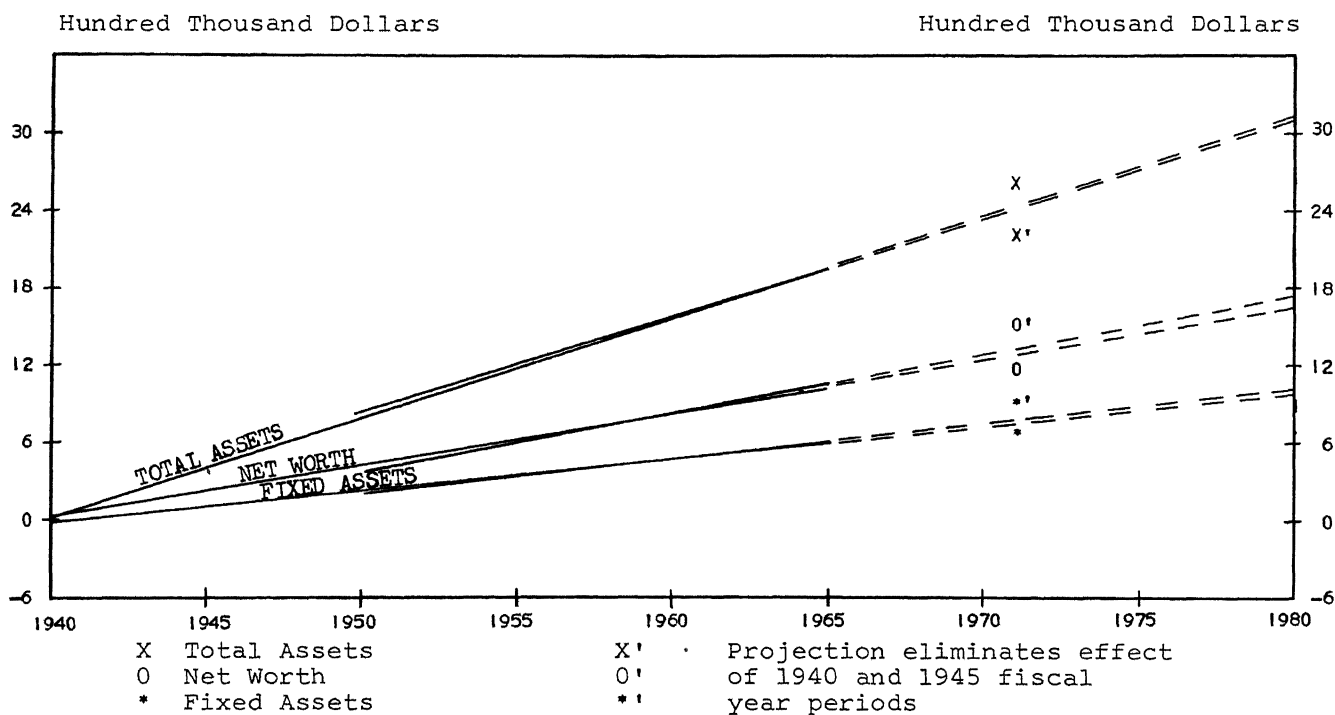


Fig. 5.—Average amounts of total assets, net worth, and fixed assets of 10 selected agricultural cooperative business organizations transacting business directly with farmers, Ohio, 1940, 1945, 1950, 1955, 1960, 1965, and projected amounts for 1970, 1975, and 1980.

**TABLE 21.—Average Amounts of Total Assets, Net Worth, and Fixed Assets, 10 Selected Ohio Agricultural Cooperative Business Organizations Transacting Business Directly with Farmers, 1940, 1945, 1950, 1955, 1960, 1965, and Projected Amounts for 1970, 1975, and 1980.**

Year	TOTAL ASSETS		NET WORTH		FIXED ASSETS	
	Average Amount	Projected Amount	Average Amount	Projected Amount	Average Amount	Projected Amount
1940	\$ 118 865	\$ —	\$ 89,013	\$ —	\$ 27 674	\$ —
1945	217 036	—	143 666	—	64 757	—
1950	893,049	—	403 484	—	218 940	—
1955	1,097,855	—	572,045	—	339 849	—
1960	1 562,319	—	860,170	—	522 565	—
1965	2 000,020	—	1 055 700	—	597 096	—
1970	—	2 346 167	—	1,236 045	—	729,294
1975	—	2,736 065	—	1,440,397	—	853,336
1980	—	3,125,963	—	1,644 749	—	977 378

to total assets, borrowing from financial institutions such as the banks for cooperatives may be the only alternative. The estimated net worth as a percentage of total assets for 1970-71, 1975-76, and 1980-81 is even higher when the effects of fiscal years 1940-41 and 1945-46 are eliminated.

Fixed assets as a percentage of total assets are estimated to increase at a slower rate than either total assets or net worth.

#### **Trends and Projections of Total Assets, Net Worth, and Fixed Assets of 10 Selected Agricultural Cooperative Business Organizations**

The 10 selected agricultural cooperative business organizations included livestock artificial breeding associations, dairy, poultry and egg, livestock, and wool marketing associations. The average amounts of total assets, net worth, and fixed assets of the 10 associations are presented in Table 21 and Figure 5.

Comparing estimated growth of total assets to net worth, it appears that the total assets and net worth will have approximately the same increases in amount by 1970-71 and 1975-76. Fixed assets, on the other hand, will have approximately a 5 percent greater increase in amount than total assets by 1970-71. Therefore, if fixed assets are to increase more relative to total assets, capital must be secured to fi-

nance the fixed assets which will be permanent in nature.

If the effects of the 1940-41 and 1945-46 fiscal years are eliminated, net worth will increase substantially to 1980. Expansion of net worth would adequately finance the estimated growth of total assets and would compare favorably with the growth of fixed assets.

#### **Summary**

Based on this study, the 40 cooperative associations, consisting of local grain elevators and farm supply associations, statewide cooperative grain and farm supply associations, livestock artificial breeding associations, and dairy, poultry and egg, livestock, and wool marketing associations, are expected to have a slower estimated growth of net worth than the estimated growth of total assets to the 1970-71 and 1975-76 fiscal years. Therefore, it may be assumed that there will be a need to expand borrowing of long-term capital funds.

Fixed assets are estimated to increase more than the growth of total assets. If fixed assets are expected to constitute a greater proportion of total assets in the future, this will require the type of capital which will remain with the association for a considerable period of time.

### SECTION III. RECOMMENDATIONS

Financial requirements of cooperatives have expanded tremendously over the years. This trend will undoubtedly continue. Often the growth of a cooperative and the quality and degree of its services are hindered by lack of capital and/or credit. The problem is primarily that of obtaining adequate amounts of equity capital, either from net earnings or additional investment by member-patrons. A sufficient base of equity capital is essential if cooperatives are to obtain loan funds at reasonable rates and maintain operational stability.

If the member-patrons will not provide adequate amounts of equity capital, what other financing alternatives are there? Outside investors and creditors and lending institutions are major sources of capital but are limited in many situations.

Farmer cooperatives were originally developed as a means for farmers to combine their capital and their business know-how to form an association of mutual benefit. The early cooperatives were extremely important to the agricultural economy but some failed to fulfill two important business requirements: to develop a true concept of a cooperative as a business entity in the minds of the patrons and to develop confidence in the cooperative as an off-the-farm business investment.<sup>5</sup> Failure to achieve these two main concepts forced existing cooperative business units to view ordinary corporate forms of capital acquisition as a means of preservation.

Internal sources of capital for expansion and general growth have been used heavily by major American businesses. Company earnings, instead of being distributed to stockholders, are invested in the firm. Internal financing avoids the heavy costs which must be incurred in borrowing funds or in issuing new securities. Internal financing also incurs less uncertainty for management, which can be sure of any funds it holds back, but may not be completely confident of the results of an attempt to market new stocks or bonds. Many stockholders seem to prefer this method of financing because it tends to transform income into capital gains by increasing the value of the company's stock, rather than providing dividend payments.<sup>6</sup>

The data presented in this study indicates that in the future Ohio agricultural cooperative organiza-

tions will be utilizing external sources of capital acquisition, such as the banks for cooperatives, more than in the past. Earnings realized from the business operations, even though allocated to the patrons and retained in the business as shown in this study, have fallen short of planned capital requirements.

The decline of earnings had detrimental effects on many cooperatives. They believed they were obligated to pay sizable cash dividends to stockholders, thus leaving little excess capital to be allocated to patrons or retained as surplus funds. This situation became even more serious with distribution of additional capital stock as patronage dividends and the payment of high dividend rates on the stock.

The Revenue Act of 1962, the most recent legislation concerned with taxation of cooperatives, created additional financing problems for some cooperatives but it helped others to develop a sounder financial structure. An association, if interested in possessing tax exemption on patronage dividends, is required by the 1962 Revenue Act to pay or allocate the dividends within 8.5 months after the end of the fiscal year and to pay at least 20 percent of the dividends in cash.

The Revenue Act of 1962 should contribute to sounder financing of Ohio farmer cooperatives in the future. This act increases the burden and expense of recordkeeping and requires added legal expense. However, the long-run effect of the act should provide for stronger financial structures. Besides gaining goodwill by the cash payment, the association will be required to formulate a long-term financial plan which will provide for the business needs of the future.

This study revealed that some cooperatives were experiencing difficulties with accounts and notes receivable. Total receivables were expanding for most supply cooperatives. It appeared that sales volumes of some cooperatives were being built at the expense of high, non-current receivables. Credit policies in some cooperatives were not well managed or were ineffectually enforced by management.

To have a stable financial structure, a cooperative should have a maximum amount of permanent forms of capital, consisting of capital stock or memberships<sup>7</sup> and earned surplus. When external financing is required, the bank for cooperatives can be utilized to obtain capital for future expansion. Repayment of borrowings from the bank for cooperatives can be coordinated in the long-term financial plan but heavy borrowings may take a large percentage of gross earnings for a number of years until the loan is paid.

<sup>5</sup>Laubis, Robert E. 1959. *An Analysis of the Financial Structure of Agricultural Cooperative Business Organizations in Ohio and Suggestions for Improvement*. Dissertation submitted in partial fulfillment of the requirements for the Ph.D. degree, The Ohio State University.

<sup>6</sup>Baumol, William J. 1965. *Economic Theory and Operations Analysis*. Prentice-Hall, Inc., Englewood Cliffs, N. J.

<sup>7</sup>Memberships for non-stock associations.

**TABLE 22.—Percentage Distribution of Capital Forms Comprising Net Worth of Selected Ohio Agricultural Cooperative Business Organizations, Fiscal Year 1964-65.**

Form of Capital	Top Five Capital Stock Firms in Financial Strength*		Bottom Five Capital Stock Firms in Financial Strength†		Four Non-Stock Firms‡	
	Total Capital	Average Percentage	Total Capital	Average Percentage	Total Capital	Average Percentage
Permanent Capital	\$1,361,200	70.0	\$1,285,400	70.0	\$ 414,400	22.8
Common Stock	868,000	45.0	342,700	19.0	—	—
Preferred Stock	97,000	5.0	1,147,900	63.0	—	—
Memberships	—	—	—	—	201,100	11.1
Surplus	396,200	20.0	(205,200)**	(12.0)**	213,300	11.7
Semi-Permanent Capital	569,400	29.5	147,200	8.0	1,315,100	72.5
Allocations	427,000	22.0	10,600	.6	306,300	16.9
Reserves	142,400	7.5	33,300	1.8	223,600	12.3
Certificates††	—	—	103,300	5.6	785,200	43.3
Non-Permanent Capital	9,100	.5	393,300	22.0	85,700	4.7
Certificates‡‡	9,100	.5	—	—	40,300	2.2
Debenture Bonds	—	—	393,300	22.0	45,400	2.5
Total Net Worth (Total Capital)	1,939,700	100.0	1,825,900	100.0	1,815,200	100.0
Long-Term Borrowed Funds (as percent of total capital)	408,900	21.0	1,143,900	62.0	182,700	10.0

\*Five capital stock firms ranking the highest for 10 selected financial ratios.

†Five capital stock firms ranking the lowest for 10 selected financial ratios.

‡Four selected non-stock firms possessing financial strength.

\*\*Deficit.

††Without maturity dates.

‡‡With maturity dates.

Many would consider the use of strictly permanent capital forms as an overly conservative approach to financing. Non-permanent capital forms, certificates with maturity dates, and debenture bonds bearing definite maturity dates and interest rates can be effective sources of funds but many organizations have become heavily indebted with these forms of capital. Management must be constantly alert to new capital sources and aware of the pitfalls which may be encountered if careless use is made of the many non-permanent capital forms available for business investment.

To formulate the recommended percentage distribution of capital forms to be utilized by stock and non-stock cooperative organizations, an analysis was made of the capital structures of the top five and the bottom five capital stock grain elevators and farm supply associations and the top four non-stock organizations in the study. The percentage distribution of capital forms comprising net worth of the selected cooperative business organizations is presented in Table 22.

The top five capital stock grain elevators and farm supply associations in financial strength (measured by their performance on 10 selected financial ratios for 4 selected fiscal year periods) had an average of 70 percent of total net worth in permanent capital forms. Nearly 30 percent of total net worth was in semi-permanent capital forms, with 0.5 per-

cent consisting of non-permanent capital forms. Long-term borrowed funds, including notes payable, mortgages payable, and debenture bonds, averaged 21 percent of total net worth for the five stock firms. These five firms had capital structures comprised basically of common stock, surplus, and allocations.

The bottom five capital stock grain elevators and farm supply associations in financial strength were in a weakened condition. Permanent capital comprised 70 percent of total net worth but surplus was a deficit 12 percent. This was the result of net operating losses suffered by three firms. Preferred stock was an important type of capital form used by the five business operations. Semi-permanent capital forms comprised only 8 percent of total capital but non-permanent capital accounted for 22 percent of the total capital, with debenture bonds comprising the entire amount of this non-permanent capital. As a percentage of total capital, long-term borrowed funds for the five firms amounted to an average of 62 percent. Thus, the bottom five stock firms in financial strength had capital structures comprised basically of common stock, preferred stock, and debenture bonds.

The four non-stock firms had capital structures comprised basically of semi-permanent capital forms. Permanent capital forms comprised nearly 23 percent of total net worth but semi-permanent capital accounted for more than 72 percent. Long-term

**TABLE 23.—Recommended Percentage Distribution of Capital Forms Comprising Net Worth for Agricultural Cooperative Business Organizations.**

Form of Capital	Stock Firms	Non-Stock Firms
	Percent	Percent
<u>Permanent Capital</u>	<u>60 - 75</u>	<u>30 - 40</u>
Common Stock or Membership Capital	40 - 50	10 - 15
Preferred Stock	0 - 5	0
Earned Surplus	20 - 25	20 - 25
<u>Semi-Permanent Capital</u>	<u>20 - 25</u>	<u>70 - 50</u>
Allocations	11 - 13	25 - 20
Reserves	5 - 7	20 - 15
Certificates*	4 - 5	25 - 15
<u>Non-Permanent Capital</u>	<u>20 - 0</u>	<u>0 - 10</u>
Certificates† and/or Debenture Bonds	20 - 0	0 - 10
Net Worth (Total Capital)	100	100
Long-Term Borrowed Funds (as percent of net worth)	0 - 25	0 - 25

\*Without maturity dates.

†With maturity dates.

borrowed capital, as a percentage of total capital, amounted to only 10 percent for the four non-stock firms. In order of importance, the basic capital forms utilized were certificates of ownership or equity without maturity dates, allocations, reserves, surplus, memberships, debenture bonds, and certificates with maturity dates.

Through an analysis of the capital forms utilized by the stock and non-stock firms possessing a high degree of financial strength, it was possible to formulate the recommended percentage distribution of capital forms comprising net worth. Table 23 presents recommendations for building a strong, stable financial structure for both stock and non-stock agricultural business organizations.

The basic recommendation is that surplus funds be accumulated. The building of surplus funds may be difficult for some associations because of the existing composition of their capital structure. However, revisions can be made if sufficient knowledge is obtained which is relevant to future capital needs.

A non-exempt association in most cases is able to experience less difficulty in building the surplus account because the earnings from non-member business can be added to surplus after the payment of regular corporate income tax.

A firm with earnings normally under \$25,000 would generally be in a better position if it had non-exempt status. The only real disadvantage of being non-exempt in the payment of Federal income taxes

is that the amounts paid as dividends on capital stock are not deductible from gross income on the tax return. If the association has a large percentage of capital shares outstanding and is paying cash dividends to the stockholders which amount to 50 percent or more of net earnings, the payment of income tax in addition may financially strain the association. This is another reason to develop a surplus reserve.

If a cooperative association has normal earnings in excess of \$25,000, it may be best for this firm to possess tax-exempt status. The income tax rate on earnings in excess of \$25,000 is more than double the tax rate on earnings of less than \$25,000.<sup>6</sup>

It is recommended that a cooperative association should be financed so that not more than 50 percent of its net savings are paid out as cash dividends on its capital shares. The patrons should receive the largest share of earnings distributed as patronage dividends in proportion to their patronage during the fiscal year.

The best advice on the type of capital structure to build and maintain should be obtained from the auditor and other individuals acquainted with problems of cooperative financing and taxation. If an organization has capital structure problems, it is suggested that the board obtain advice of two or more of these individuals.

<sup>6</sup>For 1965, the Federal income tax rate was 22 percent on taxable income under \$25,000 and 48 percent on taxable income in excess of \$25,000.

## APPENDIX

### FINANCIAL TERMINOLOGY

#### *Net Worth*

Net worth is the amount of funds invested in the risk of a business enterprise. It is the liability of a business enterprise to those interested in it after all debts of every description have been paid. Net worth can be decreased by withdrawal of assets by investors or by business losses.

Net worth, as used in this study, includes, the following forms of capital: (1) common stock, (2) preferred stock, (3) earned surplus funds, (4) membership capital, (5) book allocations, (6) reserves or allocated reserves, (7) certificates without maturity dates, (8) certificates with maturity dates, and (9) debenture bonds.

#### *Capital Stock*

Capital stock of a corporation represents ownership interest in the corporation with the interest divided into shares. Common and preferred shares comprise the capital stock structure.

#### *Common Stock*

Common stock provides evidence of ownership. The holders of common stock, as owners, assume greater risks than lenders. The position of the common stock is both primary and residual—primary because it must be issued first before the corporation can exist and residual because it must be last in receiving returns, either of principal or earnings.

#### *Preferred Stock*

Preferred stockholders are owners with rights which are modifications of the basic rights of common stockholders. Preferred stock may be preferred as to dividends only or preferred as to dividends plus preference of assets at liquidation. The dividends at a stated rate may be cumulative or non-cumulative, participating or non-participating.

#### *Memberships*

Memberships are generally associated with non-stock associations and are a requirement for participation in association activities. Some non-stock associations require that an eligible patron purchase a membership before association services are made available to that individual.

#### *Earned Surplus or Tax-Paid Surplus Funds*

Earned surplus or tax-paid surplus funds are past earnings which are not subject to allocations to patrons on a patronage basis and on which Federal income tax has been paid. Surplus funds are accumulated differently, depending on whether the association is exempt or non-exempt from the payment of Federal income tax.

#### *Undistributed Patronage Refunds*

These refunds are that part of net savings which have not been paid to patrons for business transacted with the association. These refunds belong to the patrons but are retained in the business because the board of directors has decided that this constitutes the best current financial policy for the association. Allocations, reserves, certificates without maturity dates, and earned surplus funds are varying forms of undistributed patronage refunds.

#### *Book Allocations*

Book allocations are normally referred to as amounts of net savings after payment of interest, dividends, and Federal income tax which are allocated to each patron's capital account on the books of the cooperative. Patrons are notified by letter annually of the amount credited to their accounts, based upon the amount of the past fiscal year's business.

#### *Reserves or Allocated Reserves*

These reserves are the same as allocations with one exception. By establishing allocated patronage refunds as a reserve, the board of directors formally acknowledges that the patronage refunds will not be distributed to the patrons for an indefinite period of years.

#### *Certificates without Maturity Dates*

These certificates are generally referred to as certificates of ownership or certificates of equity. These are issued to patrons annually and are based on the amount of net savings. They are allocated to patrons in the same manner as book allocations except that the patrons receive a certificate showing the amount. These certificates do not possess a fixed maturity date or, in most cases, a stated rate of interest.

#### *Certificates with Maturity Dates*

These certificates possess a fixed maturity date and a fixed rate of interest. The instruments studied were unsecured and junior to current creditors. These certificates were generally sold to investors (including members who had capital to invest). Only a few associations permitted acquisition through accumulation of patronage refunds.

#### *Debenture Bonds*

Debenture bonds closely resemble certificates with maturity dates as they have a fixed rate of interest and a fixed maturity date. They have no specific security and therefore have the same status as unsecured promissory notes, since both rely on the general credit of the issuing company. Debenture bonds must meet the approval of the state securities exchange commis-

sion and, if the interest payment is not met, the principal becomes due.

#### *Tax-Exempt Cooperative*

Tax-exempt status can be obtained by an association if it fulfills conditions established by the U. S. Treasury Department. By rating exempt status, a cooperative may claim two deductions from its gross income when filing its tax return in addition to those given ordinary commercial corporations: (1) amounts paid as dividends on capital stock and (2) amounts allocated to patrons from income not derived from patronage. This includes income from business with the United States, rents, and interest. The amounts have to be distributed within 8.5 months after the year in which they are derived.

Exemption continues only as long as the legal setup and the operating methods are in accord with the requirements of the applicable statutes and regulations.

#### *Non-Exempt Cooperative*

Failure to comply with the conditions prescribed by the U. S. Treasury Department prevents an association from securing tax-exempt status. A non-exempt cooperative may exclude from its gross income true patronage refunds for which it makes provision during the taxable year and which it distributes within 8.5 months after the end of its fiscal year.

#### *Revenue Act of 1962*

The 1962 law provided, for exempt and non-exempt cooperatives alike, the terms on which patronage dividends might be excluded for tax purposes from the cooperative's gross income and made currently taxable at their stated dollar amount to the patron. Any association interested in avoiding tax payment on patronage dividends must pay or allocate the dividend within 8.5 months after the end of

its fiscal year and must pay at least 20 percent of the dividend in cash or by qualified check. The remainder must be paid in cash, property of a kind on which a current value can be placed, or in "qualified written notices of allocation."

#### *Revolving Capital Program*

A revolving capital program provides for retirement of an association's oldest outstanding membership capital from funds furnished to the cooperative or accumulated by the cooperative from members and patrons of later years. Ordinarily the revolving fund plan of financing does not become operative until an association has all the capital it requires in its current operations.

#### *Permanent Capital*

For the purpose of the study, permanent capital was comprised of common stock, preferred stock, and surplus. These forms of capital were made relatively permanent by the associations in the study through actions of their boards of directors.

#### *Semi-Permanent Capital*

Allocated capital, allocated reserves, certificates of ownership or certificates which did not possess a maturity date, and memberships were considered semi-permanent forms of capital in this study. Some of these forms of semi-permanent capital possess relatively the same amount of permanency as certain other forms of stock but the degree of permanency varies considerably from association to association.

#### *Non-Permanent Capital*

Debenture bonds and certificates of indebtedness or certificates possessing maturity dates were considered non-permanent forms of capital. Non-permanent forms of capital possessed a fixed maturity date and a fixed rate of interest and were quite inflexible when economic conditions became difficult.